

DEPARTMENT OF TAXATION Department Summary

Mission Statement

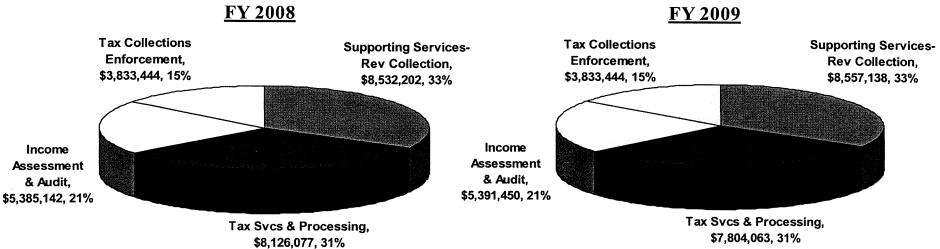
To administer the tax laws of the State of Hawaii in a consistent, uniform and fair manner by educating taxpayers on tax laws, by developing a professional staff and by using technology to increase efficiency and effectiveness.

Department Goals

To provide one-stop customer service; to increase collection capabilities through efficient allocation of resources; to simplify taxpayer filings, provide a more user-friendly interface with the public, speed up refunds and expedite delinquent referrals; to automate tax filings, billings and collections; to expand capacity for research and revenue analysis; to permit more flexibility in accommodating tax law changes and initiatives to improve tax administration.

Significant Measures of Effectiveness	FY 2008	FY 2009
1. Average call answer rate	61	61
2. Percent of tax returns audited resulting in adjustments	85	85
3. Average business days to deposit cehcks received from taxpayers	55	55

FB 2007-09 Operating Budget by Major Function



DEPARTMENT OF TAXATION MAJOR FUNCTIONS

- Administers and enforces the tax laws of Hawaii and the collection of taxes and other payments.
- Coordinates a centralized system for receiving and processing of all tax returns, payments and documents.
- Provides one-stop customer service, assistance and information on all taxes administered by the department to customers who walk in, call-in, correspond or e-mail.
- Administers a comprehensive and uniform compliance program based on self-assessment and voluntary compliance.

- Conducts audits and investigations of all types of tax returns.
- Conducts and enforces collection of delinquent taxes by appropriate collection procedures.
- Plans, organizes and coordinates a tax research and tax planning program.
- Provides administrative and research support to the Council on Revenues which prepares revenue estimates for the State on a quarterly basis.

MAJOR PROGRAM AREAS

The Department of Taxation has a program in the following major program area:

Government-Wide Support

TAX 100 Taxation

Department of Taxation (Operating Budget)

		Allocation		
		FY 2007	FY 2008	FY 2009
Funding Sources:	Positions	372.50	402.50	402.50
General Funds	\$	22,885,968	25,424,865	25,134,095
Special Funds		452,000	452,000	452,000
		372.50	402.50	402.50
Total Requirements		23,337,968	25,876,865	25,586,095

Highlights of the Executive Budget Request: (general funds unless noted)

- 1. 19 perm and 4 temp positions and \$944,312 in FY 08 and 19 perm and 1 temp positions and \$717,944 in FY 09 for county surcharge staffing.
- 2. 10 perm and 18.5 temp positions and \$852,039 amd 10 perm and 18.5 temp positions and \$796,537 in FY 09 for additional staffing for tax services and processing.
- 3. \$300,000 in FY 08 and FY 09 for professional services to support audits.
- 4. 3 temp positions and \$125,421 in FY 08 and 3 temp positions and \$95,421 in FY 09 for retail tobacco permit
- 5. 1 perm Economist VI and \$66,299 in FY 08 and \$74,625 in FY 09 for research and planning.

PROGRAM ID:

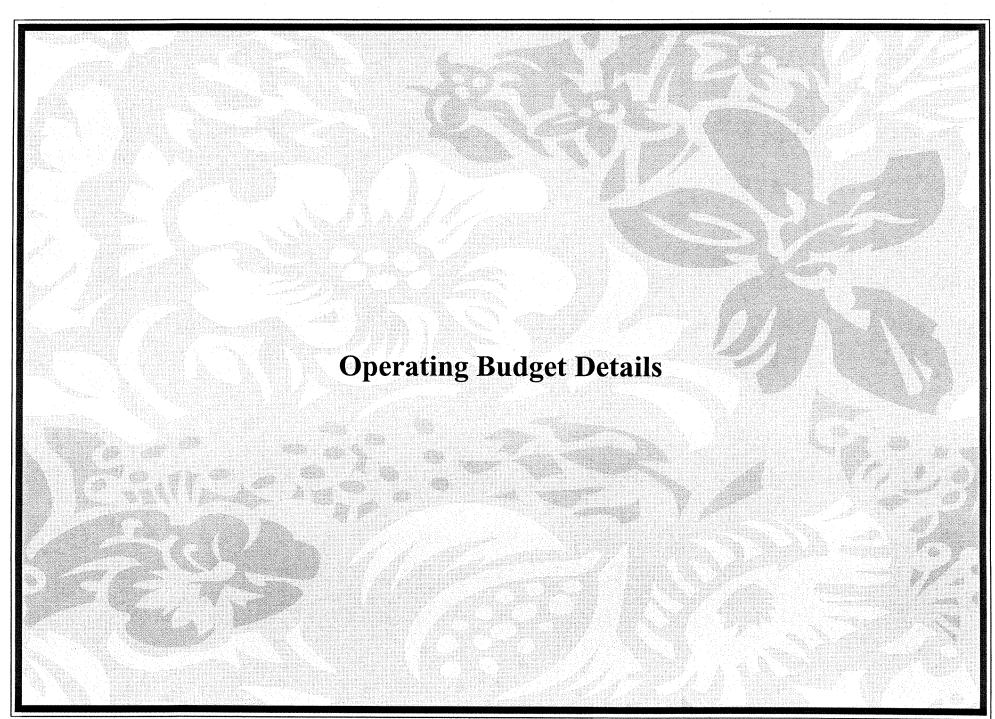
PROGRAM STRUCTURE NO.

PROGRAM TITLE:

DEPARTMENT OF TAXATION

	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	IN DOL	LARS			IN THOUS	SANDS	
PROGRAM EXPENDITURES	FY2005-06	FY2006-07	FY2007-08	FY2008-09	FY <b>2009</b> -10	FY2010-11	FY2011-12	FY2012-13
OPERATING COST	337.00*	372.50*	402.50*	402.50*	402.5*	402.5*	402.5*	402.5*
PERSONAL SERVICES	14,845,515	18,006,325	19,566,640	19,618,839	19,530	19,530	19,530	19,530
OTHER CURRENT EXPENSES	7,317,608	5,624,000	6,113,903	5,943,256	5,908	5,908	5,908	5,908
EQUIPMENT	106,789	24,000	196,322	24,000	24	24	24	24
TOTAL OPERATING COST	22,269,912	23,654,325	25,876,865	25,586,095	25,462	25,462	25,462	25,462
BY MEANS OF FINANCING				!				
	337.00*	372.50*	402.50*	402.50*	402.5*	402.5*	402.5*	402.5*
GENERAL FUND	22,087,154	23,071,372	25,424,865	25,134,095	25,010	25,010	25,010	25,010
SPECIAL FUND	182,758	582,953	452,000	452,000	452	452	452	452
TOTAL POSITIONS	337.00*	372.50*	402.50*	402.50*	402.50*	402.50*	402.50*	402.50*
TOTAL PROGRAM COST	22,269,912	23,654,325	25,876,865 =======	25,586,095	25,462	25,462 =======	25,462	25,462
TOTAL OPERATING COST  BY MEANS OF FINANCING  GENERAL FUND  SPECIAL FUND  TOTAL POSITIONS	22,269,912 	23,654,325 ====================================	25,876,865 	25,586,095 	402.5* 25,010 452 402.50* 25,462	25,462 	402.5* 25,010 452 402.50* 25,462	25,4 402 25,0 4 402. 25,4

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## OPERATING AND CAPITAL EXPENDITURES

PROGRAM ID:

PROGRAM STRUCTURE NO. 11

PROGRAM TITLE:

GOVERNMENT-WIDE SUPPORT

		IN DOLL	ARS			IN THOUS	SANDS	
PROGRAM EXPENDITURES	FY2005-06	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
OPERATING COST	337.00*	372.50*	402.50*	402.50*	402.5*	402.5*	402.5*	402.5*
PERSONAL SERVICES	14,845,515	18,006,325	19,566,640	19,618,839	19,530	19,530	19,530	19,530
OTHER CURRENT EXPENSES	7,317,608	5,624,000	6,113,903	5,943,256	5,908	5,908	5,908	5,908
EQUIPMENT	106,789	24,000	196,322	24,000	24	24	24	24
TOTAL OPERATING COST	22,269,912	23,654,325	25,876,865	25,586,095	25,462	25,462	25,462	25,462
BY MEANS OF FINANCING				<b>!</b>				
	337.00*	372.50*	402.50*	402.50*	402.5*	402.5*	402.5*	402.5*
GENERAL FUND	22,087,154	23,071,372	25,424,865	25,134,095	25,010	25,010	25,010	25,010
SPECIAL FUND	182,758	582,953	452,000	452,000	452	452	452	452
TOTAL POSITIONS	337.00*	372.50*	402.50*	402.50*	402.50*	402.50*	402.50*	402.50*
TOTAL PROGRAM COST	22,269,912	23,654,325	25,876,865	25,586,095	25,462	25,462	25,462	25,462

PROGRAM ID:

TAX100

PROGRAM STRUCTURE NO. 11020101

PROGRAM TITLE:

TAXATION

		IN DOLI	.ARS			IN THOUS	SANDS	
PROGRAM EXPENDITURES	FY2005-06	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
OPERATING COST	337.00*	372.50*	402.50*	402.50*	402.5*	402.5*	402.5*	402.5*
PERSONAL SERVICES	14,845,515	18,006,325	19,566,640	19,618,839	19,530	19,530	19.530	19,530
OTHER CURRENT EXPENSES	7,317,608	5,624,000	6,113,903	5,943,256	5,908	5,908	5,908	5,908
EQUIPMENT	106,789	24,000	196,322	24,000	24	24	24	24
TOTAL OPERATING COST	22,269,912	23,654,325	25,876,865	25,586,095	25,462	25,462	25,462	25,462
			***	=======================================				*****
BY MEANS OF FINANCING				!				
	337.00*	372.50*	402.50*	402.50*	402.5*	402.5*	402.5*	402.5*
GENERAL FUND	22,087,154	23,071,372	25,424,865	25,134,095	25,010	25,010	25,010	25,010
SPECIAL FUND	182,758	582,953	452,000	452,000	452	452	452	452
TOTAL POSITIONS	337.00*	372.50*	402.50*	402.50*	402.50*	402.50*	402.50*	402.50*
TOTAL PROGRAM COST	22,269,912	23,654,325	25,876,865	25,586,095	25,462	25,462	25,462	25,462
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#### PERFORMANCE MEASURES AND PROGRAM REVENUES

PROGRAM ID: TAX100 PROGRAM STRUCTURE: TAXATION TAXATION

	FY	FY	FY	FY	FY	FY	FY	FY
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
MEASURES OF EFFECTIVENESS								
1. AVE BUSINESS DAYS TO DEPOSIT CHECKS FROM TAXPAYERS 2. % NON-WORKLISTED REFUNDS COMPLETED IN 45 BUS DAYS 3. AVERAGE CALL ANSWER RATE 4. AVE CAL DAYS TO RESPOND TO PAPR/ELEC CORRESPNDNCE 5. % OF RETURNS AUDITED AS % OF RETURNS FILED 6. % OF RETURNS AUDITED RESULTING IN ADJUSTMENTS 7. % INCR/DECR IN TOTAL DELINQUENT TAXES OUTSTANDING 8. % INC/DEC ELECTRONIC FILINGS OVER PRIOR FISCAL YR 9. PERCENT ERROR IN FORECASTING GENERAL FUND REVENUES	85 44% 51% 15 0.4% 85 -8 3 3%	75 56% 56% 16 0.4% 85 19 5	55 83% 61% 18 0.4% 85 10 7	55 83% 61% 18 0.4% 85 10 9	55 83% 65% 20 0.4% 85 5 11	55 83% 65% 20 0.4% 85 5 13	55 83% 65% 20 0.4% 85 5 15 3%	55 83% 65% 20 0.4% 85 1 15 3%
PROGRAM TARGET GROUPS  1. NUMBER OF TAXPAYERS FILING RETURNS 2. NUMBER OF CALLERS REQUESTING PERSONAL ASSISTANCE 3. NO. OF PAPER & ELECTRONIC CORRESPONDENCE RECEIVED 4. NO. OF ACTIVE BUSINESS LICENSES DURING FISCAL YEAR 5. TOTAL DELINQUENT TAXES OUTSTANDING DURING THE FY	1123000	1133000	1145000	1157000	1169000	1181000	1193000	1205000
	333072	335000	340000	345000	350000	350000	350000	350000
	74799	80000	85000	90000	95000	100000	100000	100000
	517119	517119	517119	517119	517119	517119	517119	517119
	319	350	360	360	370	370	380	380
PROGRAM ACTIVITIES  1. NUMBER OF TAX RETURNS FILED 2. NO. TELEPHONE CALLS SERVICED BY CUSTOMER SVC REP 3. NO. OF PAPER & ELECTRONIC CORRESPONDENCE RECEIVED 4. NUMBER OF RETURNS AUDITED 5. NUMBER OF ASSESSMENTS MADE 6. TOTAL AMOUNT OF COLLECTION MADE WITH ASSESSMENTS 7. AMOUNT OF DELINQUENT TAXES COLLECTED 8. NUMBER OF TAX LIENS FILED 9. NUMBER OF LEVIES PROCESSED 10. NUMBER OF TAX LAW CHANGES	662000	666000	672000	678000	684000	690000	696000	702000
	213338	215000	218000	220000	224000	224000	224000	224000
	74799	80000	82000	84000	86000	88000	90000	92000
	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	6500	6500	6500	6500	6500	6500	6500	6500
	65	65	65	65	65	65	65	65
	263	178	188	195	200	200	200	200
	5744	5000	5000	5000	5500	5500	6000	6000
	3025	3000	3000	3000	3000	3000	3000	3000
	69	60	60	60	60	60	60	60
PROGRAM REVENUES BY TYPE (IN THOUSANDS of DOLLARS) TAXES LICENSES, PERMITS, AND FEES REVENUE FROM OTHER AGENCIES: FEDERAL CHARGES FOR CURRENT SERVICES TOTAL PROGRAM REVENUES	4,269,886	4,548,475	4,870,988	5,109,470	5,384,335	5,662,242	5,917,476	5,917,476
	461	445	424	423	418	415	414	414
	18	18	18	18	18	18	18	18
	54	45	45	45	45	45	45	45
	4,270,419	4,548,983	4,871,475	5,109,956	5,384,816	5,662,720	5,917,953	5,917,953
PROGRAM REVENUES BY TYPE (IN THOUSANDS of DOLLARS) GENERAL FUNDS SPECIAL FUNDS TOTAL PROGRAM REVENUES	4,270,109	4,548,693	4,871,185	5,109,666	5,384,526	5,662,430	5,917,663	5,917,663
	310	290	290	290	290	290	290	290
	4,270,419	4,548,983	4,871,475	5,109,956	5,384,816	5,662,720	5,917,953	5,917,953

#### A. Statement of Program Objectives

To promote a fair and efficient tax system based on self-assessment and voluntary compliance by promptly processing tax returns, payments, refunds and licenses; providing superior customer service; enforcing and collecting taxes in a timely, efficient and fair manner; and leveraging technology to meet taxpayers' needs.

#### B. Description of Request and Compliance with Section 37-68(1)(A)(B)

The Program requests funds for the following requirements:

- County Surcharge Taxation requests nineteen permanent positions, temporary
  positions (four in FY 08 and one in FY 09) and related expenses to administer and
  collect the County Surcharge Tax.
- Tax Services and Processing FTE and Equipment Taxation requests ten
  permanent and eighteen and one half temporary positions and related expenses to
  speed up the deposit of tax revenues and processing of tax returns and taxpayer
  refunds. In addition, Taxation requests microfilm equipment to replace unreliable
  machines that have become increasingly difficult to repair due to obsolescence of
  replacement parts.
- Professional Services to Support Audit Taxation requests funds for professional services in areas of specialized expertise to ensure accurate and appropriate assessments.
- Personnel Recruiting and Transactions Taxation requests one temporary Clerk
  Typist III to assist with the increased workload in recruiting, hiring and processing
  on-going transactions due to the increase in the number of permanent and
  temporary employees.
- Tax Research and Planning FTE and Research Funds Taxation requests one
  permanent Economist VI to assist with the Office's increased responsibilities
  including enhancing revenue forecasting models and forecasting the State's fee for
  administering the County Surcharge Tax.
- Retail Tobacco Act 131, SLH 2005 Taxation requests three temporary positions and related funds to administer Retail Tobacco licensing.
- Exempt Criminal Investigator Taxation requests one exempt Criminal Investigator due to the increase in workload with the initiation of various new projects to address non-compliance and assisting other local law enforcement agencies with joint investigations.

 Transfer funds to DAGS – Taxation requests to transfer Risk Management funds to DAGS due to the consolidation of Risk Management expenditures by the central agency.

#### C. Description of Activities Performed

- Audit Examination of the taxpayers' records and financial statements to ensure compliance with State tax laws, proper classification of revenues and acceptable documentation for deductions claimed. Activities include assessing tax deficiencies, refunding overpayments, criminal investigations and prompt resolution of dispute and appeals.
- Collections Collection of delinquent taxes in a timely manner utilizing appropriate
  collection tools; provide representation at bankruptcy hearings to ensure the State's
  claims are filed timely, appropriately recorded and properly resolved; prepare
  "personal" assessments for unpaid withholding taxes against responsible corporate
  officers and employees.
- Document Processing Processing paper and electronic tax returns, cashiering and depositing all monies received, processing refunds, entering data and maintenance and control of documents in the centralized filling system.
- 4. Customer Service Responding to walk-in customers, telephone, email, fax and written inquiries; providing tax clearances; issuing tax and Retail Tobacco licenses; approving and monitoring applications to purchase cigarette tax stamps, assisting taxpayers with preparation of returns, account management.
- 5. Revenue Accounting Control and accounting for all tax revenues collected, adjusted and refunded; maintain revenue control and subsidiary ledgers; maintaining of the accounting system for protested payment and tax appeals, statewide processing and accounting activities of all miscellaneous taxes (except for estate and transfer tax); prepare statements and reports of tax operations.
- Rules Develop tax interpretations including rules, regulations, technical memoranda, tax information releases, tax precedents and basic principles for uniform application of the State tax laws. Prepare appropriate tax legislative proposals and written testimony on all tax measures before the legislature.
- 7. Tax Research and Planning Develop pertinent and timely tax data to assist in the on-going review of the State tax structure; review the revenue and economic impact of all proposed revisions to the tax system; evaluate and revise the tax revenue forecasts for state and county general and special funds; develop and update various forecasting models and databases for tax revenues and personal income; in conjunction with the Council on Revenues, provide general fund estimates for a seven-year period and projects the total state personal income for the calendar year in progress.

#### D. Statement of Key Policies Pursued

The key policies pursued are uniform and equitable administration and application of all appropriate State tax laws; maximum dissemination of tax information to ensure an effective self-assessment program; and providing outstanding customer service by processing returns, deposits and refunds efficiently and providing prompt and courteous services to the public.

#### E. Identification of Important Program Relationships

The Department of Taxation and the Internal Revenue Service exchange tax information under an agreement signed by the state and federal governments in 1965. Since the income tax laws of both agencies are similar, income tax audits made by one agency are generally applicable to the other resulting in broader audit coverage and additional revenues from deficiency assessments. Under the Multi-State Tax Compact, Hawaii exchanges tax information with other member states and utilizes the services of the multi-state tax auditors in the audit of multi-state corporations. The Department has important relationships with the legislature, the Attorney General, tax practitioners and preparers and taxpayers.

#### F. Description of Major External Trends Affecting the Program

The statewide population trends, business activities, economic conditions, taxpayer filing patterns, and legislative changes are the major external trends that affect this program.

#### G. Discussion on Cost, Effectiveness and Program Size Data

The Department continues to enhance the Integrated Tax Information Management System (ITIMS) and has completed implementation of the ITIMS Imaging System (IIS) a major imaging system for data entry, automated character recognition and automated data retrieval. IIS provides significant benefits including efficient tax return processing, faster image retrieval and reduced storage space.

#### H. Discussion of Program Revenues

None

#### I. Summary of Analysis Performed

None

#### J. Further Considerations

To ensure maximization of State revenues, equity and uniformity in the application of tax laws and efficient processing of tax returns, deposits and refunds, the Department must have sufficient resources.

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